

# PERAC AUDIT REPORT



## Swampscott Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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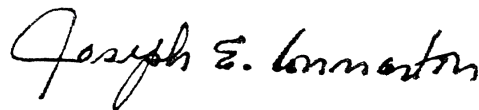
April 12, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Swampscott Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Amy Chow who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Cash/Bank Reconciliation:**

A review of the May 2014 bank reconciliation of the Swampscott Retirement Board's payroll bank account found that a "deposit in transit" of \$341.61 was carried over month-to-month. The variance remained unresolved for approximately eight months. The May 2014 bank reconciliation review also found that a negative ledger balance of \$13.01 on the payroll account was carried over for approximately three months, from April 2014 through June 2014.

The bank reconciliation reports are not included in the financial information the Board reviews monthly.

**Recommendation:** Any discrepancies found during the bank reconciliation process should be promptly investigated and resolved. The Board should be reviewing bank reconciliations approved by the Town Treasurer, including a list of outstanding checks and other reconciling items, as a part of their monthly packet.

### **Board Response:**

Bank Reconciliations are now included in all monthly meetings.

## **2. Regular Compensation:**

A review of the Town of Swampscott payroll register found that the Town Administrator receives a car allowance from which retirement deductions are being withheld. Car allowance payments are not considered regular compensation pursuant to 840 CMR 15.03(3)(f) which states that "wages" shall not include payments "for such items as ... automobile usage ..." Cars are considered "tools" rather than a service, and as such no payment related to them would be considered regular compensation (see O'Brien v. Contributory Retirement Appeal Board, 76 Mass. App. Ct. 901 (2010)).

Two DPW employees receive pay for holding a water license certification. Retirement deductions are not being withheld on this pay even though it is considered regular compensation since they are required to obtain this annual water licensing certification.

**Recommendation:** The Board should instruct payroll to immediately stop withholding retirement deductions for the car allowance and refund the excess deductions taken. The town should begin withholding retirement deductions for employees receiving pay for water license certifications.

### **Board Response:**

The Town Administrator has been reimbursed retirement deductions that were withheld for car allowance and the two DPW employees are having retirement deductions taken out for holding a water license certification.

## **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
<b>Net Assets Available For Benefits:</b>			
Cash	\$561,256	\$434,329	\$395,954
Short Term Investments	414,167	151,917	99,135
Equities	1,945,956	1,946,975	1,537,528
Pooled Domestic Equity Funds	6,173,442	4,553,754	3,154,614
Pooled Alternative Investment Funds	523,108	656,780	746,601
Pooled Real Estate Funds	1,506,987	1,300,201	1,199,081
PRIT Cash Fund	23	0	0
PRIT Core Fund	33,394,391	31,273,039	26,844,004
Interest Due and Accrued	2	0	0
Accounts Receivable	1,083	733	51,015
Accounts Payable	(54,112)	(3,502)	(14,017)
<b>Total</b>	<u>\$44,466,304</u>	<u>\$40,314,227</u>	<u>\$34,013,914</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$12,708,776	\$12,564,376	\$11,931,989
Annuity Reserve Fund	2,957,534	2,579,568	2,755,603
Pension Fund	1,839,762	1,492,147	997,536
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>26,960,232</u>	<u>23,678,136</u>	<u>18,328,786</u>
<b>Total</b>	<u>\$44,466,304</u>	<u>\$40,314,227</u>	<u>\$34,013,914</u>



## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$11,304,217	\$2,825,352	\$1,009,463	\$0	\$14,599,177	\$29,738,208
Receipts	1,282,643	78,943	4,287,403	376,777	3,746,717	9,772,483
Interfund Transfers	(450,258)	467,365	0	0	(17,107)	0
Disbursements	(204,613)	(616,057)	(4,299,330)	(376,777)	0	(5,496,778)
Ending Balance (2012)	11,931,989	2,755,603	997,536	0	18,328,786	34,013,914
Receipts	1,168,399	77,587	4,766,252	386,451	5,333,821	11,732,510
Interfund Transfers	(395,709)	380,180	0	0	15,529	0
Disbursements	(140,304)	(633,802)	(4,271,640)	(386,451)	0	(5,432,197)
Ending Balance (2013)	12,564,376	2,579,568	1,492,147	0	23,678,136	40,314,227
Receipts	1,480,899	75,946	4,793,481	420,747	3,288,706	10,059,780
Interfund Transfers	(952,328)	958,938	0	0	(6,610)	0
Disbursements	(384,170)	(656,918)	(4,445,867)	(420,747)	0	(5,907,702)
Ending Balance (2014)	12,708,776	2,957,534	1,839,762	0	26,960,232	44,466,304

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,137,777	\$1,095,718	\$1,037,754
Transfers from Other Systems	272,434	45,961	207,183
Member Make Up Payments and Re-deposits	36,208	14,586	25,094
Member Payments from Rollovers	15,483	0	0
Investment Income Credited to Member Accounts	18,997	12,135	12,612
Sub Total	<u>1,480,899</u>	<u>1,168,399</u>	<u>1,282,643</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>75,946</u>	<u>77,587</u>	<u>78,943</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	133,887	178,491	125,651
Pension Fund Appropriation	87,015	157,198	122,857
Settlement of Workers' Compensation Claims	4,543,164	4,381,537	4,038,896
Recovery of 91A Overearnings	0	20,000	0
	<u>29,415</u>	<u>29,025</u>	<u>0</u>
Sub Total	<u>4,793,481</u>	<u>4,766,252</u>	<u>4,287,403</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>420,747</u>	<u>386,451</u>	<u>376,777</u>
<b>Pension Reserve Fund:</b>			
Interest Not Refunded	1,611	0	0
Miscellaneous Income	10,255	10,647	0
Excess Investment Income	<u>3,276,840</u>	<u>5,323,174</u>	<u>3,746,717</u>
Sub Total	<u>3,288,706</u>	<u>5,333,821</u>	<u>3,746,717</u>
<b>Total Receipts, Net</b>	<u>\$10,059,780</u>	<u>\$11,732,510</u>	<u>\$9,772,483</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$193,442	\$26,809	\$32,601
Transfers to Other Systems	<u>190,728</u>	<u>113,494</u>	<u>172,013</u>
Sub Total	<u>384,170</u>	<u>140,304</u>	<u>204,613</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	656,918	600,532	616,057
Option B Refunds	<u>0</u>	<u>33,270</u>	<u>0</u>
Sub Total	<u>656,918</u>	<u>633,802</u>	<u>616,057</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	2,985,566	2,925,646	3,009,931
Survivorship Payments	121,152	121,360	126,633
Ordinary Disability Payments	3,178	18,668	18,278
Accidental Disability Payments	797,252	751,375	706,751
Accidental Death Payments	153,037	150,660	138,541
Section 101 Benefits	73,135	65,418	54,748
3 (8) (c) Reimbursements to Other Systems	247,988	204,735	209,216
State Reimbursable COLA's Paid	61,054	30,634	31,929
Chapter 389 Beneficiary Increase Paid	<u>3,504</u>	<u>3,144</u>	<u>3,303</u>
Sub Total	<u>4,445,867</u>	<u>4,271,640</u>	<u>4,299,330</u>
<b>Expense Fund:</b>			
Salaries	99,639	92,451	90,781
Legal Expenses	3,656	4,786	8,823
Medical Expenses	231	0	0
Travel Expenses	191	471	1,008
Administrative Expenses	5,625	3,098	2,757
Professional Services	17,250	3,286	400
Actuarial Services	6,675	5,810	3,600
Education and Training	2,572	4,921	3,474
Furniture and Equipment	2,180	0	3,601
Management Fees	215,908	200,935	182,113
Custodial Fees	21,012	21,012	22,004
Consultant Fees	20,000	20,000	26,667
Service Contracts	19,205	22,923	24,110
Fiduciary Insurance	<u>6,603</u>	<u>6,757</u>	<u>7,439</u>
Sub Total	<u>420,747</u>	<u>386,451</u>	<u>376,777</u>
<b>Total Disbursements</b>	<u>\$5,907,702</u>	<u>\$5,432,197</u>	<u>\$5,496,778</u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2014	2013	2012
<b>Investment Income Received From:</b>			
Cash	\$635	\$954	\$941
Equities	191,833	162,888	133,159
Pooled or Mutual Funds	1,055,360	1,457,994	920,319
Commission Recapture	<u>0</u>	<u>0</u>	<u>1,094</u>
<b>Total Investment Income</b>	<u>1,247,828</u>	<u>1,621,835</u>	<u>1,055,513</u>
<b>Plus:</b>			
Realized Gains	2,490,969	1,554,893	794,698
Unrealized Gains	3,207,385	4,402,150	4,317,106
Interest Due and Accrued - Current Year	<u>2</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,698,357</u>	<u>5,957,044</u>	<u>5,111,804</u>
<b>Less:</b>			
Realized Loss	(323,307)	(79,582)	(295,086)
Unrealized Loss	(2,830,347)	(1,699,950)	(1,657,169)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>(13)</u>
Sub Total	<u>(3,153,654)</u>	<u>(1,779,532)</u>	<u>(1,952,268)</u>
<b>Net Investment Income</b>	<u>3,792,531</u>	<u>5,799,347</u>	<u>4,215,049</u>
<b>Income Required:</b>			
Annuity Savings Fund	18,997	12,135	12,612
Annuity Reserve Fund	75,946	77,587	78,943
Expense Fund	<u>420,747</u>	<u>386,451</u>	<u>376,777</u>
<b>Total Income Required</b>	<u>515,691</u>	<u>476,173</u>	<u>468,332</u>
Net Investment Income	<u>3,792,531</u>	<u>5,799,347</u>	<u>4,215,049</u>
Less: Total Income Required	<u>515,691</u>	<u>476,173</u>	<u>468,332</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$3,276,840</u>	<u>\$5,323,174</u>	<u>\$3,746,717</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$561,256	1.3%
Short Term Investments	414,167	0.9%
Equities	1,945,956	4.4%
Pooled Domestic Equity Funds	6,173,442	13.9%
Pooled Alternative Investment Funds	523,108	1.2%
Pooled Real Estate Funds	1,506,987	3.4%
PRIT Cash Fund	23	0.0%
PRIT Core Fund	<u>33,394,391</u>	<u>75.0%</u>
<b>Grand Total</b>	<b><u>\$44,519,331</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2014, the rate of return for the investments of the Swampscott Retirement System was 9.23%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Swampscott Retirement System averaged 9.85%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Swampscott Retirement System was 9.29%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Swampscott Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 11, 2011

The Swampscott Retirement Board ("Board") is hereby granted an exemption from the provisions of 840 CMR 21.01(3), 21.01(4), 21.01(6) with respect to certain futures contracts, options and restricted stock respectively, and may invest a portion of the funds of the Swampscott Retirement System in the registered mutual fund known as the Neuberger Berman Equity Income Fund ("Fund"). The Board is satisfied with the Manager's representations regarding the other applicable provisions of M.G.L. c. 32 and the regulations of the Public Employee Retirement Administration Commission, as well as the Manager's representations that will follow the investment policies which are publicly available in the Fund's prospectus and statement of additional information, and are subject to the regulatory oversight of the U.S. Securities Exchange Commission.

September 21, 2010

21.01(6):

The Swampscott Retirement System is hereby granted an exemption from the provision of 840 CMR 21.01(6) and may invest a portion of the funds of the Swampscott Retirement System in the fund known as the Alger Capital Appreciation Portfolio. The Alger Capital Appreciation Portfolio is a pooled funding vehicle which seeks long-term capital appreciation by investing in equity securities, primarily those which are traded on domestic stock exchanges or in the over-the-counter market. The exemption from the provision of 840 CMR 21.01(6) regarding certain restricted securities (such as PIPEs and 144a securities) will provide the Manager the opportunity to invest in companies with outstanding growth potential at various stages of their existence. The Manager's analysts, who build their own bottom-up, proprietary research, occasionally identify companies with great growth potential, but investing in such companies is only achieved through these investment vehicles. These investment vehicles are typically not available to the general public, but are available to Qualified Institutional Buyers at reasonable valuations relative to their actual value.

December 11, 2007

17.03:

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Swampscott Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 31, 2001

16.08:

In accordance with PERAC Investment Guideline 99-2, the Swampscott Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Swampscott Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata may not be undertaken. This is because such a person may receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Swampscott Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### **Creditable Service:**

May 26, 2010

Supplemental Creditable Service Regulation: Members of the Swampscott Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Swampscott Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Swampscott Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the Swampscott Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service. For the purpose of prorating part-time service, 150 hours of service shall be the equivalent of one (1) month of creditable service.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1<sup>st</sup> to on or about June 30<sup>th</sup> including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the Swampscott Retirement System as set forth in this regulation.
- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- Any member purchasing past part-time service rendered shall have said service prorated based on 150 hours being considered a full month of service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time. Members may only purchase past part-time or temporary service rendered in member unit of the Swampscott Retirement System.

\*\*\*If the provision of this Regulation is in conflict of the State law, the State law shall take precedence.

May 21, 1998

Any employee of the Town of Swampscott who served as an auxiliary or special police officer in any governmental unit or political subdivision of the Commonwealth prior to becoming a member of the Swampscott Retirement System shall be considered a temporary employee as set forth in G.L. c. 32, § 4(2)(c) and may receive credit for actual service rendered in this capacity, based on the actual compensation received while rendering such service and upon making payment to the System, with interest, prior to the member's actual retirement.

December 17, 1996

Buy-backs:

An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the retirement system "in one lump sum or in installments" the amount required by c. 71 of the Acts of 1996. This allows the member to choose his/her own method or option of payment, thereby eliminating payroll deduction. The total veterans' buyback payment would be payable in full prior to the member's effective date of retirement.

January 6, 1995

Full-time permanent employees will receive full credit except in instances where full-time employees also had part-time service.

Any part-time employee who qualifies for membership shall receive one (1) year of creditable service provided they work the hours required for their position and provided their entire service is on a part-time basis.

Subject to verification as specified by the agency any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it related to a full-time position.

Members who work at least seven continuous months per year will be credited with one year of service for each year worked provided they work the hours required by their position and provided their entire service is on the same basis.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

The Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Swampscott governmental employees who were ineligible at the time of their employment in the Swampscott Retirement System.

**Buy-backs:**

Members seeking to buy back time must submit, in writing, dates and places of previous employment. The Retirement Board will request all pertinent information from the appropriate agencies;

A member of the Swampscott Retirement system shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered (REPEALED June 20, 1995).

**Membership:**

January 6, 1995

Membership: Every employee who becomes a member of the Swampscott Retirement System must complete the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment he/she must also furnish the Board with a birth certificate, and if a veteran, a copy of his/her Discharge of Military Service or equivalent which shall be kept on file with the board.

Full-time permanent employees who work at least 30 hours per week and are under age 65 must join the Retirement System as of the date of their employment.

Part-time permanent employees who work at least 20 but less than 30 hours per week and are under the age of 65 must join the retirement system as of their date of employment.

Elected officials who receive compensation may join the Retirement System within ninety (90) days after the date of the assuming office, if under age 65 on the date of election.

Temporary employees, employees who are normally scheduled to work less than 20 hours per week are not eligible for membership in the retirement system. (AMENDED 5/21/98)

The Retirement Board shall have full jurisdiction to determine the eligibility of employees for membership involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment service.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

#### **Miscellaneous:**

May 20, 1998

In making determination of whether a cost-of-living adjustment should be granted in any particular year and whether said cost-of-living adjustment would substantially impair the funding scheduled of the Swampscott Retirement System, the Swampscott Retirement Board hereby adopts the following guidelines:

1. A cost-of-living adjustment for eligible retirees and beneficiaries shall not be granted unless the average rate of return on the Swampscott Retirement System's investments for the three-year period immediately preceding the current calendar year is eight percent.
2. Any cost-of-living adjustment will be an amount equal to the Consumer Price Index as calculated by PERAC or three percent whichever is less.
3. The Swampscott Retirement Board is under no obligation to grant cost-of-living adjustments in any particular year.

January 6, 1995

#### **Changes in Employee Status:**

Members agencies must notify the Retirement Board within ninety (90) days of any changes in employee status including workers compensation, position held and hours in work week.

(Note: G.L. c.32, s.3(2)(g) requires department heads to notify the board within thirty (30) days of any change in the title, address, rate of compensation, duties or service of any employee in the department).

#### **Injuries:**

All major injuries incurred due to employment must be reported in writing to the Swampscott Retirement Board within 90 days of the accident.

#### **Travel Regulations**

October 8, 2002

The Swampscott Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Swampscott>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: David Castellarin

Appointed Member: Thomas H. Driscoll, Jr., Esq. Term Expires: 07/01/17

Elected Member: Kevin F. Breen Term Expires: 08/11/19

Elected Member: John F. Behen, Jr. Term Expires: 12/11/17

Appointed Member: John T. Kiely, Jr. Term Expires: 01/07/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Alterra America Insurance Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Stone Consulting, Inc. as of January 1, 2015.

The actuarial liability for active members was	\$37,483,207
The actuarial liability for inactive members was	581,932
The actuarial liability for retired members was	<u>50,078,366</u>
The total actuarial liability was	\$88,143,505
System assets as of that date were	<u>42,498,707</u>
 The unfunded actuarial liability was	 <u>\$45,644,798</u>
The ratio of system's assets to total actuarial liability was	48.2%

The normal cost for employees on that date was 9.1% of payroll

The normal cost for the employer was 4.2% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum  
 Rate of Salary Increase: 3.75% ultimate rate plus steps based on job group, service and department.

#### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2015 (Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2015	\$42,499	\$88,144	\$45,645	48.2%	\$12,270	372.0%
1/1/2013	\$34,141	\$78,077	\$43,936	43.7%	\$11,187	392.7%
1/1/2011	\$33,178	\$71,822	\$38,644	46.2%	\$10,954	352.8%
1/1/2010	\$31,828	\$68,326	\$36,498	46.6%	\$10,747	339.6%
1/1/2008	\$33,846	\$65,637	\$31,791	51.6%	\$10,842	293.2%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Retirement in Past Years</b>										
Superannuation	1	2	7	5	6	0	1	0	6	8
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	1	0	0	0	2	2
<b>Total Retirements</b>	<b>1</b>	<b>2</b>	<b>7</b>	<b>5</b>	<b>7</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>8</b>	<b>10</b>
Total Retirees, Beneficiaries and Survivors	224	223	222	221	229	212	202	203	190	198
Total Active Members	272	282	252	241	242	233	233	242	250	253
<b>Pension Payments</b>										
Superannuation	\$2,498,776	\$2,603,919	\$2,641,423	\$2,715,845	\$2,743,274	\$2,832,245	\$2,840,973	\$3,009,931	\$2,925,646	\$2,985,566
Survivor/Beneficiary Payments	95,308	82,083	83,871	92,896	118,241	118,865	113,847	126,633	121,360	121,152
Ordinary Disability	15,713	16,073	16,433	16,796	17,153	17,513	17,888	18,278	18,668	3,178
Accidental Disability	772,879	798,985	759,299	796,070	817,219	748,594	752,966	706,751	751,375	797,252
Other	389,003	365,902	387,506	423,703	477,726	297,487	395,211	437,737	454,591	538,718
<b>Total Payments for Year</b>	<b>\$3,771,679</b>	<b>\$3,866,962</b>	<b>\$3,888,532</b>	<b>\$4,045,310</b>	<b>\$4,173,613</b>	<b>\$4,014,703</b>	<b>\$4,120,885</b>	<b>\$4,299,330</b>	<b>\$4,271,640</b>	<b>\$4,445,867</b>

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